

BUDGET SUPPLEMENT NO: 4

May 23, 2006

**SUBJECT: Proposal to Eliminate the Library's DVD/Videotape
Feature Film Rental Fee in FY 2006/2007**

BUDGET SUPPLEMENT REQUEST SUMMARY

This request is to: 1) Eliminate the \$1.50 per item fee when users borrow materials from the Sunnyvale Library's DVD/Videotape Feature Film collection; and 2) Bridge the gap by making strategic cuts to the Library's budget in order to keep the budget balanced. If approved, the fee would end June 30, 2006 and the accompanying cut in the Library's budget would take place in Fiscal Year 2006/2007.

The original purpose of the DVD/Videotape Feature Film rental fee was to raise revenue as an alternative to making additional but more drastic cuts to the Library's budget as a result of the City's budget crisis in FY 2002/2003. The fee was implemented in the FY 2004/2005 budget. During that year it became clear that the \$300,000 revenue projected in rental fees would not be met. As a result, the target amount for the revenue was adjusted mid-year to \$100,000 instead, and the Library made a number of other cuts to its budget to make up the difference.

The Library now has more experience with the rental fee so that the various problems and challenges for the public and staff associated with the fee have become more evident. Also, there are concerns about the reliability of this fee as a long-term revenue source to help make up the Library's budget. Changes to Library operations and other opportunities that have presented themselves suggest that this is an optimum time to consider eliminating the DVD/Videotape Feature Film rental fee, and instead balance the Library's budget through strategic cuts.

BACKGROUND

In FY 2002/2003 the City was experiencing a \$15 million a year deficit. All departments were asked to present a 15% cut or revenue increase for Council consideration. The Library needed to bridge a budget gap of \$300,000 even after a number of budget cuts had been made. The prospect of making reductions in addition to the previous cuts would have involved laying off staff and drastic cuts to services. It was proposed instead to raise revenues by implementing a rental fee of \$1.50 for library users to borrow materials from the DVD/Videotape Feature Film collection. This idea also was in response to a question raised by a Councilmember about the appropriateness of having a Feature Film collection at the Library, the underlying thought being that the Library's collection might be in competition with video store services.

Since the circulation of the DVD and Videotape collection was very healthy at the time, staff believed that the collection was popular enough to withstand

charging a nominal rental fee to borrow the items. The fee proposed was lower than charges paid at the video stores. Staff realized there would be some loss of circulation as a result of introducing the fee, so the projection of revenue was \$300,000, which was still lower than the amount staff felt could be recouped, based on circulation of the materials at that time. Due to the preparation required to implement the DVD/Videotape Feature Film rental fee, Council agreed to allow staff to implement the fee in FY 2004/2005. The preparations planned involved minor construction, modification of the database records for the entire collection, and physically relocating the collection.

During the initial months of implementation, there were a number of negative comments from library users about the new rental fee. This sentiment was echoed resoundingly by library users through their actions; many of them simply stopped checking out feature films at Sunnyvale Library. The rental of items from the collection did not reach anywhere near the \$300,000 mark anticipated. In fact, staff saw the use of the DVD/Videotape Feature Film collection plummet from over 360,000 circulations in FY 2003/2004 to approximately 90,000 circulations in FY 2004/2005, a decrease of 74%. Furthermore, circulation of feature films in videotape format decreased 89%. As a result of the decrease in circulation, staff had to make other cuts mid-year to meet the projected budget and the revenue projection was changed to \$100,000.

The revised revenue projection of \$100,000 for the DVD/Videotape Feature Film rental fee was conservatively based on actual volume of rentals experienced. Having failed to meet the original projection, staff did not want to risk over projecting. The difference between the projected amount and the original \$300,000 was \$200,000, which was made up primarily by freezing a vacant Administrative Librarian position and cutting the vacant positions associated with the higher volume of work projected for the DVD/Videotape Feature Film rentals in the FY 2005/2006 budget.

EXISTING POLICY

There are a number of goals, policies and action statements that relate in principle to the service provided by the DVD/Videotape Feature Film collection. According to the Library Sub-element, "The ultimate goal of the Sunnyvale Public Library is to provide a full service library which will meet the needs of the community. Library services will be provided free of charge to library users." Additionally, the Library Sub-element has the following goals, policies and action statements that apply to the DVD/Videotape Feature Film service.

Goal 6.2A: Provide a broad and diverse collection of books and other Library materials to meet the varied interests and needs of the community

Policy 6.2A.1a Provide a collection of materials in print, audiovisual and electronic formats in support of all Library services

Action Statements:

6.2A.1a Provide a collection of adequate size, quality and diversity that reflects the changing needs of its customers

6.2A.1b Acquire and maintain current and relevant materials in response to community interest and demand

Policy 6.2A.5 Give high priority to developing the Library's collection of Popular Materials

Action Statements:

6.2A.5b Provide a collection of media

Goal 6.2B Provide Library services to help the community find and use the materials and information they need

Policy 6.2B.2 Organize and present materials so library users can find what they need

Action Statements:

6.2B.2e Classify materials and provide catalog access with the end result of a user friendly system

Policy 6.2B.3 Ensure lending procedures that are convenient to Library users

Action Statements:

6.2B3b Evaluate the need and purpose for library overdue fines and library fees

Goal 6.2F Foster a collaborative organization to attain a high performance and customer-focused Library

Policy 6.2F.4 Adopt practices and systems which streamline workflow to make library services and materials available to the public

Action Statements:

6.2F.4a Value the multiple demands on customers' time and provide services efficiently

6.2F.4b Encourage customers to be self-sufficient when possible in order to allow Library staff to do what is most important to serve the customers

DISCUSSION

Results of the Rental Fee

Library staff and the public have had a fair amount of experience with the DVD/Videotape Feature Film rental collection by now, allowing for a realistic assessment of the service. Other mitigating factors that impact services are more stable too, such as the Library's staffing levels needed for current volume of work, implementation of new computer systems, and the decision to end the Sc(i)³ partnership with the United States Patent and Trademark Office. Also, by now the public's choice is clear regarding DVD/Videotape Feature Film rental. Many Sunnyvale Library users decided not to pay to borrow DVDs and Videotape Feature Films; they started going to other libraries in the surrounding area to borrow such materials free of charge.

In FY 2004/2005 when the rental fee was implemented, the Library's overall circulation declined by 312,608 (14.7%) from 2,130,978 in FY 2003/2004 to 1,818,370. Staff believes that the decline was attributed to: 1) A significant drop in loans from the entire DVD/Videotape collection from 460,938 to 203,952 (overall a drop of 55.8% - which included items loaned for free as well as items for which the fee was applicable); and 2) Sunnyvale Library users' interest in, and use of newer libraries in the surrounding area. Materials that involved the rental fee declined the most - DVDs dropped 65%, while checkout of videos from that collection declined 89%. Anecdotally, when people mention that they have started using other libraries, they say it is due to the rental fee and their ability to borrow free of charge elsewhere. As a result, these individuals end up going to the other libraries where they can make one stop for most of the library materials they want to borrow.

While it was understood that the DVD/Videotape Feature Film rental would require patrons to check out the materials at the Circulation Desk in order for staff to collect the fee, it was not anticipated that there would be such a drastic drop in the use of the Self Checkout machines. The Self Checkout machines are a tool to give library users the choice of privacy when checking out their own materials, and it allows them to do so at their own convenience. The Self Checkout machines also provide efficiencies in service for the Library. However, since implementation of the DVD/Videotape Feature Film rental fee, use of the Self Checkout machines has declined from 41% of the total volume of circulation to 20%. More staff time is needed as a result to check out materials.

Staff finds that the transactions at the Circulation Desk are more complex and lengthier. Staff has to collect the funds, walk over to the cash register to record the payment and make the appropriate change for the transaction, go back to the circulation station to give the patron their receipt and the change. Staff has to handle more of the regular circulation transactions as well because people who are checking out other materials along with the DVDs and Videotape

Feature Films now do so at the Circulation Desk. In the past, all of these items could have been borrowed via the Self Checkout machines. The staff spends additional time explaining to library users why there is a charge and acknowledging complaints about the fee, although there have been a few compliments on the low cost in comparison to the video stores, too.

An unanticipated problem is that the online catalog does not have an efficient way to display the records for items subject to the rental fee. Generally, libraries do not charge for collections so this type of service is not accommodated in the Innovative Interfaces, Inc., system. In order to block the circulation of these items at the Self Checkout machines so that staff may collect the fee at the Circulation Desk, staff had to place a special code in the records for these item types. When searched, the online catalog indicates these materials are "Library Use Only." As a result, the system makes it more difficult, rather than easier for people to find the Feature Films that they want. When library users check the catalog for Feature Films, based on the messages they get in response, they may assume that they cannot borrow the materials. This is counterproductive. Also, the information is incorrect, which is embarrassing to staff, and inefficient since it requires further explanation.

Future Prospects of the DVD/Videotape Feature Film Rental Collection

On Tuesdays when new Feature Films are released from the movie studios, there is an expectation that the Library will have the new titles on hand just like the video stores do. Also changing formats this year – Blu-Ray and HD-DVD are in demand. New releases of Feature Films via cable television, downloading to computer systems, and personal devices are turning into big business. Competition between the cable companies and phone companies for movie-related services is really heating up. There appear to be major media wars in the making. The funding source to augment the DVD/Videotape Feature Film collection is a source of concern also. Without continuous, high level investment in the collection, the revenue from rental fees could drop. In general, staff members believe that the library will not be able to hold its own for the long term.

The entire concept of the rental fee was based on a desire to raise revenue. As a result, there is a need to keep up the rental volume in order to maintain the revenue stream. This has impacted the nature of the Library's DVD/Videotape Feature Film collection, shifting it toward purchasing numerous copies of highly popular items that otherwise might not have been purchased before the rental fee came into being. Some of these titles are relatively short-lived as interest wanes and other releases are forthcoming soon. In the past, the collection was composed of more classics, award-winners, and informational, or "how to" items.

Staff also fears that DVD/Videotape Feature Film rental fees will take on a life of their own in the City budget. Originally there was a need to make up a \$300,000 deficit which was met with cuts of \$200,000 by eliminating positions, leaving \$100,000 that needed to be collected through rental fees. As the library happens to bring in more revenue, it is easy to see the requirement grow to keep the higher level of revenue as the goal, increasing the Library's obligation above the original amount and deepening potential cuts when the Library eventually cannot sustain this special revenue stream.

Proposed Strategy to Eliminate the DVD/Videotape Feature Film Rental Fee

Library staff would like to continue the City's tradition of delivering high-level, customer-centered service. It is the staff's hope to offer more efficient, convenient service by making the Self Checkout machines a more viable alternative again, and making the checkout experience a faster, more pleasant interaction. Staff also would like to once again serve the many community members who have moved on to other libraries as a result of the DVD/Videotape Feature Film rental fee.

At the time the fee was proposed, the Library did not have the same opportunities as are currently available, nor did staff have the experience from the results of the rental fee. Library staff is in agreement that the rental program has not worked well from a public service perspective and has not met revenue expectations. The current service is inefficient and generally does not offer a positive experience or garner positive feelings about the Library and the City.

If the DVD/Videotape Feature Film rental fee is to be eliminated, doing so in FY 2006/2007 could be advantageous from a budget strategy perspective because of the California State Library's Maintenance of Effort (MOE) requirement for granting the annual Public Library Fund (PLF) monies. The MOE requires that the City maintain certain budgetary funding levels for the Library from year to year. Strategically, it could be better for the Library to take the \$100,000 cut in its budget in FY 2006/2007 while some budgetary increases are proposed to occur at the same time in the line items that are used to report the MOE for PLF, such as the salaries line item. The increases along with the proposed cuts should produce the net effect needed to allow the Library to still meet the MOE requirement. Not meeting the MOE requirement would mean loss of the City's PLF grant from the State. In FY 2005/2006, PLF provided \$52,000 but if it were fully funded by the State, Sunnyvale would receive over \$300,000. Either amount would be more than the Library could afford to lose.

Service Level Impact

The proposed cuts are strategic with the expectation that service levels will substantially remain the same. The following is a summary of the proposed cuts:

- 1,066 hours of Library Specialist I in Circulation representing a vacant position for shelving library materials - \$22,983
- 433 hours from Reference Librarians representing vacated hours related to a staff transfer from Sci3 to Reference full-time, also a reduction in hours to select and evaluate materials for the collection, and an effort to realign hours with actual use by full-time Librarians - \$23,196
- Library materials reduction in Reference materials which are generally available through online subscription services - \$16,000
- Outreach/Print Shop funding reduction revising the components, style and frequency of printed materials - \$25,117
- 352 hours of Library Specialist III in Technical Services from vacant hours - cuts proposed would reduce products by 1,736 for making changes to database records, and 959 for repairs to materials - \$10,501
- General Supplies from the Children's Division - \$1,000
- 19 hours of Casual Management from Library Administration - \$1,203

The goal is to make reductions in all areas of the Library to the extent possible, to bridge the \$100,000 gap now, rather than risk future layoffs when the revenues dip. Some proposed reductions are in vacant staff positions in the Circulation/Check-out Division where the Self Checkout machines once again may be used more conveniently and efficiently when money for Feature Film fees does not need to be collected by Circulation staff. This would free up staff for other duties, including shelving materials. Features of the new Innovative Interfaces, Inc., and other computerized systems will reduce additional staff time by allowing customers to schedule use of Internet access computers themselves and make computerized changes in records by staff easier. Streamlined procedures in the Cataloging and Processing Division will also allow some hours to be reduced, while keeping service to the public at the current level. Other proposed reductions in the budget shown above will decrease funds for staff in different areas of the library and tighten spending for supplies, publicity and materials. Although these funding decreases will put some limitations on library operations, it is intended that they will have minimal impact on the public. The elimination of the DVD/Videotape Feature Film fee, however, should have a positive influence on library customers and the community at large.

FISCAL IMPACT

The fiscal impact is that the Library's proposed budget would be reduced from the current plan of \$6,629,871 in FY 2006/2007 to \$6,529,871. Furthermore,

the Library's revenue from the DVD/Videotape Feature Film rental fee would be reduced from \$106,090 in FY 2006/07 to \$0.

CONCLUSION

As a result of the City's budget crisis in FY 2002/2003, the Library implemented a DVD/Videotape Feature Film rental fee in FY 2004/2005 in order to avoid deeper cuts to the Library's budget. At the time, such cuts could not have been sustained without significant impact to services and possible layoff of staff. However, after a short period of implementation, it was clear that the rental fee would not reach the anticipated level of \$300,000 in revenue so additional cuts had to be made mid-year in FY 2004/2005, leaving \$100,000 as the targeted amount of revenue needed from the rental fee.

The DVD/Videotape Feature Film rental fee has had a negative impact on library services and the Library users' perspective on the Library and the City. Services are not as efficient as they could be because the fee has to be collected, slowing down the circulation transaction, making the Self Checkout machines useless for many transactions and resulting in incorrect information in the online catalog. Some library users have migrated to other libraries because other libraries do not charge to loan items from their DVD/Videotape Feature Film collections. The ability to sustain the revenue stream from the fee is in doubt because of technology changes and the expense of maintaining a collection of interest when payment is required.

By strategically cutting some support activities and vacant positions/hours, the Library has an opportunity to replace the rental revenue needed with cuts in the budget. The \$100,000 budget cut would end the requirement for the \$1.50 fee to borrow from the DVD/Videotape Feature Film collection with minimal impact to service levels experienced by the public, although it would tighten spending for supplies, publicity and materials. Eliminating the DVD/Videotape Feature Film rental fee should allow the Library to be more user-friendly while allowing the Library to take advantage of efficiencies offered by new online systems and renewed use of the Self Checkout machines.

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City Manager's Recommendation

☐ Approve Budget Supplement for funding

☐ Do Not Approve Budget Supplement for funding

Amy Chan
City Manager

Attachments

Attachment A – Budget Supplement Detail Form

BUDGET SUPPLEMENT FORM

Fiscal Year 2006/2007

BUDGET SUPPLEMENT #4: PROPOSAL TO ELIMINATE THE LIBRARY'S DVD / VIDEOTAPE FEATURE FILM RENTAL FEE

FISCAL IMPACT :	\$0
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TOTAL PROPOSED COSTS (Savings) :	(\$100,000)
TOTAL PROPOSED REVENUES :	(\$106,090)
NET IMPACT :	(\$6,090)

20-YEAR IMPACT :	(\$384,313)
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DESCRIPTION OF THE TYPE OF RESOURCES AND THE PURPOSE FOR WHICH THEY ARE BEING REQUESTED:

This Budget Supplement proposes to eliminate the Library's DVD/Videotape Feature Film Rental Fee in FY 2006/2007. The projected fiscal impact is a reduction of \$100,000 in fee revenues. A corresponding reduction in expenditures to several Library programs is required to balance the reduction in revenues. The reduction consists of 1,870 total staff hours and \$42,117 total from goods and services; specifically included are 1,066 Library Specialist I hours, 433 Librarian hours, 352 Library Specialist III hours, 19 Casual Management hours, \$16,000 from Book Acquisitions, \$1,000 from General Supplies, and \$25,117 from Print Shop. Products for the Add, Modify, and Delete Records and Repair Library Materials activities are being adjusted to better align with current trends. There are no changes to the program statement and measures as a result of these adjustments.

This Budget Supplement impacts the following Programs:

Program 610 – Borrower Services / Circulation of Library Materials

Program 611 – Library Services for Adults

Program 613 – Acquire Library Materials for the Public

Program 615 – Prepare Library Materials for the Public

Program 617 – Library Department Management and Support

CURRENT				PROPOSED			
ACTIVITIES/PRODUCTS							
ACTIVITY #	DESCRIPTION	PRODUCT TYPE	PRODUCTS	ACTIVITY #	DESCRIPTION	PRODUCT TYPE	PRODUCTS
615120	Add, Modify, and Delete Records	A Catalog Record Modified	106,736	615120	Add, Modify, and Delete Records	A Catalog Record Modified	105,000
615130	Repair Library Materials	An Item Repaired	16,300	615130	Repair Library Materials	An Item Repaired	15,341
617100	Department Management	A Work Hour	2,139	617100	Department Management	A Work Hour	2,120
FISCAL IMPACT							
TOTAL DEPARTMENT COSTS – CURRENT		\$6,629,871		TOTAL DEPARTMENT COSTS – PROPOSED		\$6,529,871	

ACTIVITY DETAIL COST, HOURS AND PRODUCTS

SERVICE DELIVERY PLAN in Department of Libraries

PERSONNEL

ACTIVITY #	JOB CODE	CLASSIFICATION	WORK HOURS	PRODUCTS	COSTS
610110	8402	Library Specialist I	(1,066)	No Change	(\$22,983)
611100	1600	Librarian	(360)	No Change	(\$19,285)
613100	1600	Librarian	(58)	No Change	(\$3,107)
613110	1600	Librarian	(15)	No Change	(\$804)
615120	8404	Librarian Specialist III	(232)	(1,736)	(\$6,921)
615130	8404	Librarian Specialist III	(120)	(959)	(\$3,580)
617100	9980	Casual Management	(19)	(19)	(\$1,203)
TOTALS			(1,870)	(2,714)	(\$57,883)

PURCHASED GOODS AND SERVICES

ACTIVITY #	OBJECT LEVEL	OBJECT NAME	COSTS
612100	5155	General Supplies	(\$1,000)
613100	5220	Library Acquisitions, Books	(\$16,000)
TOTAL			(\$17,000)

OTHER COST ADDITIONS / REDUCTIONS

ACTIVITY #	OBJECT LEVEL	OBJECT NAME	COSTS
616110	6510	Print Shop Charges	(\$25,117)
TOTAL			(\$25,117)
GRAND TOTAL			(\$100,000)